



**The Kennedy Trust for Rheumatology Research
Annual Report & Accounts for the Year Ended 30 September 2021**

**Registered Charity: No 260059
Company No 963832**

The Kennedy Trust for Rheumatology Research

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TRUSTEES' REPORT

GOVERNANCE

The Trust is governed by a Board of Trustees (shown on page 4) and has three sub-committees, as laid out below. Each has specific responsibilities (as set out in their Terms of Reference) and each report to the Board on a regular basis.

New Trustees are provided with an induction pack which was reviewed and updated during the year. The induction pack includes their fiduciary responsibilities, as well as relevant information about the Trust. The continuing development of all Trustees is met by an annual scientific update and presentations (often by invited external speakers) on various relevant issues.

The Trust has provided indemnity insurance for the Trustees during the year.

Trustees are recruited by the Board based upon their experience, professional qualifications, empathy and interest in the Trust's objectives and ability to further the Trust's performance and achievements. The sub-committees shortlist candidates whose area of expertise falls within their committee's responsibilities and put forward final candidates to the Board of Trustees.

In preparing this report, Trustees have referred to the Charity Commission's general guidance on public benefit and are satisfied that the activities undertaken by the Charity meet the Commission's requirements.

Governing Document

The Trust is a charitable company limited by guarantee incorporated on 13 October 1969 and is governed under its Articles of Association. The Charity is registered with the Charity Commission of England and Wales.

Charitable Objectives

To provide financial and other support for basic and translational research into rheumatic and related musculoskeletal, immunological and inflammatory diseases. In meeting its charitable objectives, the Trust supports both basic and translational research primarily through its support of the Kennedy Institute of Rheumatology.

The Board

- Professor Sir Stephen Holgate (Chair)
- Mr. Edmund Buckley
- Mr. Christopher Coombe (appointed 22 June 2021)
- Professor Andrew Cope
- Mr. Mark Dighero
- Mrs. Margaret Frost
- Professor Hill Gaston
- Mr. Rodney Hornstein (resigned 13 August 2021)
- Professor Tracy Hussell (appointed 12 October 2021)
- Mrs. Jennifer Johnson
- Mr. David Paterson (resigned 12 October 2021)
- Professor Michael Patton (appointed 22 June 2021)
- Mr. Richard Punt (appointed 22 June 2021)
- Dr. Paul Satchell (appointed 22 June 2021)
- Ms. Victoria White
- Sir Gregory Winter (resigned 23 March 2021)

Finance and Investment Committee (FIC)

The purpose of the FIC is to: formulate the Trust's financial and investment policies; agree these with the Board of Trustees; be responsible for overseeing the implementation of the agreed policies; and implement a risk management strategy for finance and investment matters.

The composition of the FIC during the year was as follows:

- Mrs. Margaret Frost (Chair from 23 March 2021)
- Mr. David Paterson (Chair until 23 March 2021, resigned 12 October 2021)
- Mr. Edmund Buckley
- Mr. Christopher Coombe (appointed 22 June 2021)
- Mr. Mark Dighero
- Professor Sir Stephen Holgate
- Mr. Rodney Hornstein (resigned 13 August 2021)
- Dr. Paul Satchell (appointed 22 June 2021)

General Purposes Committee (GPC)

The purpose of the GPC is to take responsibility for all governance and intellectual property matters.

The composition of the GPC during the year was as follows:

- Mrs. Jennifer Johnson (Chair)
- Mr. Mark Dighero
- Professor Sir Stephen Holgate
- Professor Michael Patton (appointed 22 June 2021)
- Mr. Richard Punt (appointed 22 June 2021)
- Ms. Victoria White
- Sir Gregory Winter (resigned 23 March 2021)

Research Committee (RC)

The Research Committee has responsibility for all matters requiring scientific expertise.

The composition of the RC during the year was as follows:

Trustees:

- Professor Andrew Cope (Chair from 22 June 2021)
- Professor Hill Gaston (Chair until 22 June 2021)
- Professor Sir Stephen Holgate (until 22 June 2021)
- Professor Tracy Hussell (appointed as Trustee 12 October 2021)

Non-trustees (appointed to the RC for a three-year period):

- Professor Tracy Hussell (until 12 October 2021)
- Professor Carl Goodyear (appointed 10 June 2021)
- Professor Paul Lehner (appointed 10 June 2021)
- Professor Neil Sebire
- Professor Gitta Stockinger

Ex-Officio:

- Professor Sir Stephen Holgate (from 22 June 2021)

Ex Officio

Mr. Pierre Espinasse and Mrs. Susan Johanson are Ex Officio non-voting members of all the Committees.

STRATEGIC REPORT

KEY ACHIEVEMENTS

The Trustees are pleased to present their annual report together with the financial statements of the charity for the year ended 30 September 2021 which are also prepared to meet the requirements for a directors' report and accounts for the Companies Act purposes.

The financial statements comply with the Charities Act 2011, the Companies Act 2006, the Memorandum and Articles of Association, and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

1. COVID-19

Impact on current and future activities

In line with Government guidelines, the Trust continued to work remotely during most of the year, with Board, Committee and other meetings held via video-conferencing. The Trust was able to function well under these conditions, including running a full funding call for its new MB PhD Programme (see below). The Trust was able to make a return to a mix of office-based and home-based working in August (although remote working was reintroduced in late December 2021) and in-person meetings, with video-conferencing facilities, restarted in September.

While the impact of Covid-19 on the institutions and researchers supported by the Trust was initially significant, with many laboratories having to close and experiments suspended, most of these limitations have now been overcome with researchers having full access to laboratories and facilities when needed, with remote working optional. Research activity and output have now almost returned to pre-pandemic levels.

Recognising the initial impact on research, the Trust agreed to no-cost time extensions where necessary to some of the projects and individuals it funded. In addition, it provided extra funding to final year PhD students to allow them more time to complete their research and write up their thesis. The 'business continuity' grant awarded to the Kennedy Institute of Rheumatology at Oxford ("the Institute") last year allowed it to cover some of the costs of restarting activity.

The Trust continues to be in a strong position to deliver its research funding strategy and to support the Institute. It is, however, too soon to know what the longer-term impact of the pandemic will have on UK research.

2. Trust Strategy and Operations

Strategy

The Trust's mission is to provide financial and other support for basic and translational research into musculoskeletal diseases. The Board decided in 2019 that it would focus on unmet needs, with the longer-term objective of its resources helping to achieve a meaningful impact in the development of cures and preventative treatment. Trustees agreed at the time that the Trust's primary focus should be on basic science and the translational research which flows from it and that the Institute should continue to be the primary vehicle for the realisation of the Trust's goals.

During the year, the Board reviewed the Trust's strategy and confirmed the following key principles:

- The relationship with the Institute should remain at the core of the Trust's plans
- Its funding strategy should be driven by the science and the focus should be on excellence and on seeking to make a difference
- The Trust should be ambitious in its plans and be prepared to take risks
- The Trust should reach out to and support bright young researchers

Trustees asked the Research Committee to hold a meeting with appropriate external input to discuss and identify strategic themes that the Trust might explore. Outcomes of the meeting, to be held in 2022, will be brought to Trustees to inform the development of a new five-year research funding strategy.

Operations

During the year, following a review of its investment strategy and on the recommendations of the Finance and Investment Committee, the Trust undertook a retendering exercise for the provision of fiduciary management services. As a result, a decision was made to appoint JP Morgan as the Trust's investment adviser in place of SEI. The transition to JP Morgan was completed during the year (see "Review of Investment Activities" below).

The Trust successfully applied for membership of the Association of Medical Research Charities (AMRC) – a membership organisation dedicated to supporting medical research charities in funding the best research. In joining the AMRC, the Trust has demonstrated that its funding initiatives adhere to the AMRC's stringent governance guidelines and peer review standards. In addition, the Trust was added to the Government's list of Endorsed Funders under the Global Talent Visa scheme. This endorsement enables all international researchers funded by Kennedy Trust grants (including our Senior Research Fellows) to apply for a fast-tracked, Tier 1 Global Talent Visa to work in the UK.

The Kennedy Trust was also recognised as a UK National Institute for Health Research (NIHR) non-commercial Partner. This means the studies that the Trust fund may be eligible to access the NIHR Study Support Service which provides infrastructure support for the initiation and delivery of high-quality research which benefits patients and the NHS, including relevant research in public health and social care.

Mindful of the increased risks of cybercrime posed by remote working, the Trust strengthened its IT systems and cybersecurity arrangements, including the obtention of Cyber Essentials Certification.

3. Supporting the Kennedy Institute of Rheumatology

Institute update

By the end of the year, the Institute had moved to business as normal and was fully open with no restrictions (although mask wearing, regular hand-washing and social distancing remained recommended, as was regular lateral flow testing).

The roof extension to the Institute building, part-funded by the Trust, was completed during the year. The extension provides space for 65 desk-based researchers and is expected to meet the requirements of the Institute for the next few years.

Staff numbers declined slightly over the year as a result of limitations posed by the pandemic, to 142 staff and 55 PhD students, but recruitment is expected to pick up during the coming year. Some key appointments were, however, able to be made with the successful recruitment of two Senior Research Fellows in Data Science, funded by the Trust, as well as an advanced microscopy specialist.

Engaging with Industry

Following the audit of IP opportunities at the Institute carried out by IP Pragmatics in 2019, specialist support and guidance are now being provided to Institute staff by the University's Medical Sciences Translational Research Office on accessing industry interactions and translational routes. In addition, a new 'For Industry' section has been set up on the Institute's website to showcase the ways in which it partners with industry.

Grants funded

As part of its ongoing dialogue with the University over securing the long-term future of the Institute at Oxford, the Trust is keen for the Institute to house more Statutory Professorships. These Professorships, often named or endowed Chairs, are the most senior academic posts at the University of Oxford. They are held by academics of the highest calibre, with an international level of academic excellence and a world-leading research reputation. In line with this, the Trust made a commitment to provide £2.376m towards the cost of a ten-year Kennedy Trust Chair in Molecular Immunology at the Institute.

During the year, the Trust also continued to support the research activities of the Institute. This included providing core funding for the Data Science Platform, the Cell Dynamics Platform, and the Centre for Microbiome Studies. A grant of £0.908m was also provided to help set up a Zeiss Centre of Excellence at the Institute in partnership with the Institute for Development and Regenerative Medicine and Carl Zeiss AG which will house the newest state-of-the-art optical imaging equipment, a ZEISS Lattice Lightsheet 7 microscope.

4. Other Research Funding

MB PhD Scheme

When the Trust undertook a review of its research funding strategy in early 2019, it identified the need to support researchers and, in particular, young scientists. Mindful of the importance of clinician scientists and the key role they play in translating discovery into clinical use, the Trust decided to support an MB PhD training route for aspiring clinician scientists to undertake the vocational training of a medical degree in tandem with the research expertise of a PhD in areas of research relevant to musculoskeletal and other inflammatory diseases.

Building on the MB PhDs supported under Cancer Research UK's Clinical Academic Training Programme Awards, the Trust issued a restricted call for proposals in May 2020. Under that call, universities were invited to apply for a 5-year programme, funding five annual cohorts of up to four

students each (with the Trust expecting to support between twelve and fifteen students per annum in total), with the expectation that students would engage in research of direct or indirect relevance to any musculoskeletal or inflammatory diseases.

The call was issued by the Trust in May 2020 and six proposals were received. A panel, consisting of Professors Sir Stephen Holgate, Sara Marshall (Wellcome Trust) and John Isaacs (Newcastle University), was convened to consider the applications. Interviews with applicants were held in November 2020 and the panel's recommendations for funding were presented to the Board in December 2020. These recommendations were accepted, and awards were made to the Universities of Birmingham, Manchester and Oxford together with a joint award to the Universities of Edinburgh and Glasgow. The first students recruited under the scheme started their studies in October 2021.

Kennedy Trust Senior Research Fellowships

During the year, and following the success of two earlier calls in 2017 and 2019 which resulted in awards to Dr John Grainger at the University of Manchester, and then to Dr Adam Croft at Birmingham and Dr Rebecca Gentek at Edinburgh, the Trust issued its third call for its Senior Research Fellowship scheme with a closing date of 10 December 2021. Nineteen universities were invited to undertake an internal selection exercise and put forward one candidate each. Applications received will be reviewed by an independent international panel of scientists and it is expected that recommendations for the award of up to two fellowships will be made to the Board in the Spring of 2022, with successful candidates taking up their award within the following six to nine months.

Collaboration with Versus Arthritis

As reported last year, the Trust has been working with Versus Arthritis (VA) to explore the possibility of developing an initiative on a systems biology approach to understanding and treating fatigue. Following a one-day workshop held in February 2020 with the aim identifying priorities for musculoskeletal fatigue research, the Trust and VA agreed to commission a systematic review in the broad areas of chronic fatigue measurement, assessment and treatments, with the aim of identifying gaps in evidence and needs for future research and funding. A call for proposals to undertake this review, jointly funded by the two organisations, is expected to be published in early 2022.

The Trust is also in discussions with VA to consider funding a major new initiative in Tissue Biology at the Institute.

Kennedy Trust Maini Feldmann Prize

Following the decision by the Board to establish a new international prize named after Professors Maini and Feldmann in recognition of their ground-breaking work identifying anti-TNF therapy as an effective treatment for rheumatoid arthritis and other inflammatory diseases, the Trust has maintained its engagement with the Academy of Medical Sciences over the management of the prize and has continued to work with them over its launch. During the year, the Board discussed and affirmed its support for the prize.

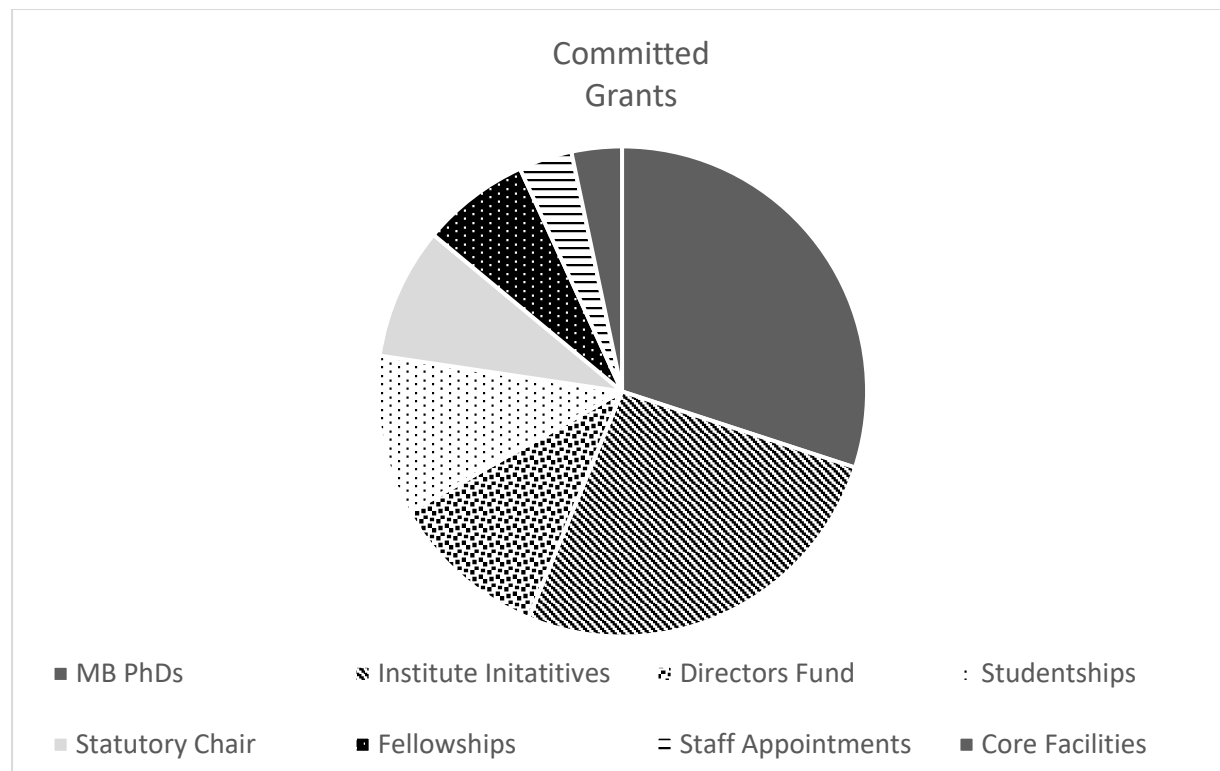
Kennedy Trust Alumnus Network

The Kennedy Trust has funded research into musculoskeletal and related inflammatory diseases for over 50 years. Whilst the focus of its support has historically centred around the Institute, the Trust has recently expanded the scope of its funding with the launch of its Senior Research Fellowships in 2017 and an MB PhD scheme commencing in October 2021. With funding now reaching seven universities across the UK, supporting individuals at every career stage from PhD student to Professorial researcher, the Trust is keen to establish a network of its current and alumni researchers. The primary goal would be to facilitate networking, mentorship and career support amongst the increasingly large family of Kennedy Trust researchers.

As a first step in establishing this Network, a Steering Group consisting of five current students and fellows was convened during the year to help design and organise a residential conference bringing together Trust-funded students and researchers. This first event, to which over fifty students and researchers have been invited, is scheduled to take place in Birmingham in March 2022.

5. Grant Funding during the Year

During the year, the Trust issued 15 grants to the University of Oxford totalling £21,530,777 (of which £19,129,149 was to the Institute). MB PhD awards were also made to the Universities of Birmingham (£1,668,287), Edinburgh (£1,034,642), Glasgow (£1,034,642), and Manchester (£2,068,200).



	£'000	%
MB PhDs	8,207	30%
Institute Initiatives	7,166	26%
Director's Fund	2,884	11%
Studentships	2,884	11%
Statutory Chair	2,376	9%
Fellowships	1,950	7%
Staff Appointments	962	4%
Core Facilities	908	3%
	27,337	100%

6. Impact Report

The primary objective of the Trust is to support research into inflammatory diseases, both through the Institute and elsewhere, and to invest in the future scientific leaders in the field.

Following its adoption of Researchfish last year as a tool to gather information on the outcomes and impact of the research it funds, the Trust undertook a full reporting exercise of its current grants in March/April 2021. Researchfish is a reporting platform designed to help research funders, charities, research organisations and research centres to collect impact-related data to advocate research and inform funding strategies.

The exercise covered 31 awards with a total grant value of £28.3m. The following outcomes were reported:

- 90% of the awards generated unique publications, producing a total of 228 scientific publications
- 58% of awards reported at least one scientific collaboration as a direct result of Trust funding
- 8 research prizes were received
- 71% of awards reported at least one instance of further funding following Trust investment, generating a total effective further funding of £37m
- Two new patents were published
- Five new software or technical products were developed
- Two new therapeutic inventions were created

The two new therapies developed were the use of spermidine to improve vaccination in the elderly, and an oestrogen-containing therapy for hand pain in women with hand osteoarthritis.

In addition to the outcomes identified through Researchfish reporting, projects funded by the Trust produced a number of valuable outcomes during the year. These included:

- Using 3D imaging, Dr Anjali Kusumbe's group (Kennedy Trust Research Fellow at the Institute) revealed the role of blood vessels in hormone production, showing a direct correlation between age-related decline in capillary and artery numbers and hormone production in the endocrine system; and
- Professors Chris Buckley and Adam Croft (Kennedy Trust Senior Research Fellow) at the University of Birmingham's Rheumatology Research Group brought new insight into the causes of rheumatoid arthritis by identifying the chemical messenger which instructs cells to destroy joints, leading to hope for new treatments.

7. Intellectual Property

The Trust has owned a broad portfolio of patents which included the key US, Canadian and European anti-TNF therapy patents which were licensed out and which together were responsible for generating the Trust's past royalty income.

The Trust has been a co-defendant since 2013 with Janssen in a Canadian lawsuit brought by Pfizer over the validity of the Trust's Canadian patent and possible infringement by Pfizer of that patent through sales in Canada of Pfizer's biosimilar version of infliximab. Following decisions by the Canadian courts finding in the Trust's and Janssen's favour, hearings to determine damages took place in 2021. However, before the outcome of these hearings was decided, a full settlement

agreement was reached between all parties in July 2021 under which all claims and counterclaims were withdrawn.

8. Future Plans

The Trust, on the advice of its Research Committee, will review its funding ambitions and explore new opportunities for funding with a view to setting out its Research Funding Strategy for the next five years.

Following the call for proposals launched in July 2021, the Trust's independent Review Panel will consider applications for the Kennedy Trust Senior Research Fellowships and will make recommendations to the Board, through the Research Committee, on fellowships to be awarded.

The Trust will make arrangements for its independent Scientific Review Board to visit the Institute in late 2022 in order to assess the Institute's performance and the priorities for its future funding by the Trust.

The Trust will launch its Alumnus Network with a first residential event in Birmingham in March 2022 for currently funded students and researchers to support career development.

In partnership with Versus Arthritis, we will issue a call for proposals for a comprehensive scoping review in order to help understand the measurements, assessments and treatments used for all forms of chronic fatigue and identify gaps for future research.

We will finalise arrangements with the Academy of Medical Sciences on the joint development of a new international scientific prize in translational research, with a view to launching the prize in late 2022.

Following the success of the first two awards, we will fund the call for a third Daphne Jackson Fellowship, which offers researchers the opportunity to return to a research career after a break of two or more years.

FINANCIAL REPORT

Following a retendering process, the Trustees agreed to appoint JP Morgan in place of the Trust's fiduciary manager SEI. The transition of liquid assets was completed during the final quarter of the financial year with the sale of SEI liquid assets and Ruffer and Newton holdings. The transition to JP Morgan drives the realized gain on investments of £32.2m. The fiduciary manager transition is detailed further in the "Review of Investment Activities".

The Covid-19 outbreak and the resultant global lockdowns initially adversely affected the values of the Trust's investments, however since the initial impact in March 2020, the Trust has benefited from a material recovery. The Trust's investments valued at £341.7m (2020: 302.3m) demonstrate the portfolio is resilient and the Finance and Investment Committee is satisfied that its diversified investment strategy will protect the Trust's investments, and that there are adequate levels of reserves to support the Trust's long-term planned spend. The impact of Covid-19 on the Trust's investments is detailed in the "Review of Investment Activities".

Gross royalty income received during the year was £0.7m (2020: £0.9m). With the revocation of a European patent in November 2019, patent income has diminished in line with expectations.

The Trust monetised part of its royalty share in 2012. In accordance with the terms of the monetisation agreement, it receives 50% of the royalty due. These payments will continue for the life of the patents.

Royalty income was received in US dollars and transferred to pounds sterling on or shortly after the date the funds were received.

Royalty sharing payments of £0.5m (2020: £0.6m) were made to Versus Arthritis and the inventors in respect of this income. These payments are made according to a formula for sharing royalties in line with current UK University practice.

The costs incurred in prosecuting the Trust's patent portfolio were £36k (2020: £96k). The current year decline reflects reduced patent protection activity. With the revocation of one of the Trust's European patents in November 2019, royalties have diminished and are expected to remain at these reduced levels until expiration of the remaining Supplementary Protection Certificates in 2022.

Total support costs during the year amount to £370k (2020: £424k) and these costs are allocated over Trust activities in accordance with time spent, invoices directly allocated or another fair method of allocation. The 2020 support costs were higher due to greater levels of prior year activities including the previous Scientific Review Board costs (£22k) and communications review (£20k).

Governance costs are analysed in Note 7 to the Accounts. They totalled £37k in 2021 (2020: £168k) which represents less than 1% of funds expended. Office costs of £96k have been reallocated from governance to support costs driving the overall reduction in costs.

The committed grants in 2021 were £27.337m against £8.487m in 2020. The figure shown in the accounts is net of grant write backs and other adjustments of £3.952m (2020: £0.728m) comprising agreed cancellations (£2.948m), grant write backs (£0.673m) and replacements (£0.331m). Grants awarded have increased significantly resulting from the new MB PhD Programme (£8.207m) and several Institute initiatives including support for a Statutory Chair in Molecular Immunology (£2.376m), Data Science Platform (£2.611m) and Cell Dynamics Platform (£2.298m).

The Trust assesses if the impact of discounting multi-year grant liabilities to present value is material, and due to the increase in current year awards and inflation, the current year is the first reporting period the impact is considered material. A review of the discount rate was completed, and the rate was updated from the average rate of inflation as the Trustees regard the Trust's target rate of return on investment, currently CPI +3% to be appropriate. This discount rate is considered by the Trustees as providing the most current available estimate of the opportunity cost of money reflecting the time value of money to the Trust. The non-current grant liabilities of £34.7m are discounted, applying a discount rate of 6.1% resulting in a grant liabilities discount of £4.9m recognised as a reduction in charitable expenditure.

The grant cash spend by the Trust during the year reflects grants committed in earlier years so does not move in proportion to the grants committed. The cash spend in 2021 was £8.000m (2020: £5.332m).

The Trust considers the salaries paid on an annual basis to ensure they are fair and appropriate for the roles and reflect any changes to the roles during the year. In addition, account is taken of changes in the cost of living.

There were no changes in key management personnel during the period. Further information on key management personnel is detailed in Note 8 to the Accounts.

The Trust does not fundraise and does not deal with the public directly. A minimal amount of unsolicited donations were received in the year, therefore the Charity does not need to follow a fundraising standards scheme.

REVIEW OF INVESTMENT ACTIVITIES

As a matter of good governance, the Trust retendered its fiduciary manager engagement in 2020. Furthermore, the Trust sought to increase its allocation to private market investments in the longer term, and move towards a greater focus on Environmental, Social and Governance (ESG) matters. During the current financial year, as the outcome of the retendering process, the Trustees agreed to appoint JP Morgan in place of its existing manager SEI.

As part of the retendering process, the Trust's investment objective was reviewed and it was concluded a total return in excess of inflation, defined as CPI + 3% over the longer term continues to be appropriate. The Trust aims to achieve the desired return through a well-diversified portfolio with an appropriate level of liquidity and risk.

The transition of liquid assets to JP Morgan was completed during the final quarter of the financial year with the sale of SEI liquid assets and Ruffer and Newton holdings achieving net proceeds of £258m which were invested by JP Morgan in liquid holdings. A further £2.9m was raised from a partial redemption of the Structured Credit Fund which is in the process of full liquidation. The transition to JP Morgan accounts for £30.8m of the realized gain on investments of £32.2m.

The Trust's holdings in the three UK property funds The Charities Property Fund (Savills), COIF Charities Property Fund (CCLA) and Property Income Trust for Charities (Mayfair) are being retained for an interim period, being considered efficient charity specific vehicles, and providing appropriate exposure to the sector. These funds represent 9.6% (2020: 10.0%) in value of the portfolio.

The Trust's private market holdings Glouston Private Equity Opportunities of £7.5m (2020: £6.7m) and Tennenbaum Special Situations of £5.4m (2020: £6.7m) are being held through to run off.

There are residual illiquid investments held with SEI which will be transitioned to JP Morgan including the Infrastructure (£18.4m) and Structured Credit Fund (£12.2m). As at 30 September 2021, the Trust's private market investment in Glouston (£7.5m) had been transferred to JP Morgan management whilst Tennenbaum (£5.4m) continued to be held under SEI.

The M&G Charifund holding represents the Trust's permanent endowment and is being retained.

As part of JP Morgan's appointment, the strategic asset allocation has been reviewed. Both the initial to long term target allocations are multi-asset and well-diversified with global exposure across a variety of asset classes and a broad range of currencies. Forward exchange contracts are used solely to manage the exposure to foreign exchange rate risks.

Return on Investments

The return on investments for the year to 30 September 2021 was 15%, therefore the Trust considers it has well exceeded its long-term target return on investments being a total return in excess of inflation, defined as CPI + 3%.

Impact of Covid-19

As a result of the Covid-19 outbreak and the consequential global lockdowns, the Trust's investments were subject to a reduction in value during the year ended 30 September 2020, however the Trust's well-diversified portfolio has enabled recovery and strengthening since the

initial impact of Covid-19 in March 2020. The investment portfolio at year-end was valued at £341.7m (2020: £302.3m).

The Finance and Investment Committee is responsible, in consultation with its investment advisers, for the development of the investment strategy for the Trust and monitors investment performance at its quarterly meetings. The investment managers submit quarterly reports to the Committee and are invited to present when a more intensive review of performance and process is undertaken. JP Morgan, a substantial global investment manager, is responsible for managing 79.4% of the Trust's assets.

The investments overseen by JP Morgan are in collective schemes. These funds include public equities, bonds, alternatives and private markets. The portfolio managed by JP Morgan will move towards inclusion of infrastructure and further private market investments as the trust divests from its residual SEI holdings. JP Morgan select a wide range of managers within the funds, to diversify manager risk.

A firm of independent consultants, Lane Clark & Peacock LLP (LCP), has been retained to provide periodic updates on the property funds. LCP commenced consulting for the Trust in 2017 when the Trust commissioned LCP to complete a review of its investment policy.

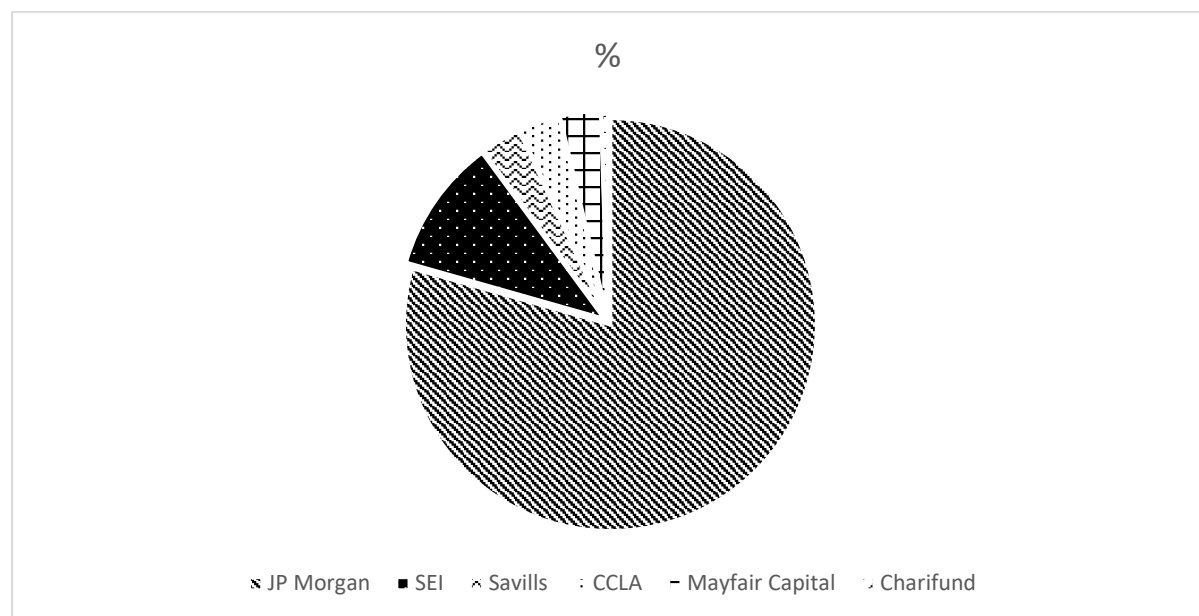
In the current year, LCP were engaged to advise on the retendering of the Trust's fiduciary manager.

The Finance and Investment Committee continues to review the application of the Trust's policy with regard to responsible investing. All investment managers are asked to make regular reports on the application of their ESG policies. These are reviewed at the manager meetings. Given the Trust's objectives, the Trustees have a particular interest in and concern about tobacco investments and give extra focus to monitoring these as part of its ESG activities.

The Trust's approach to responsible investment is intended to be consistent with its duty to secure satisfactory long-term returns from the investment of its charitable funds. The Trustees expect their fund managers to consider the ESG policies of companies alongside other factors that will affect their long-term investment prospects.

ESG policy was highlighted as a key issue in the fiduciary manager retendering exercise, and it is expected that it will have greater influence on investment policy in future.

Investment Portfolio Split by Manager



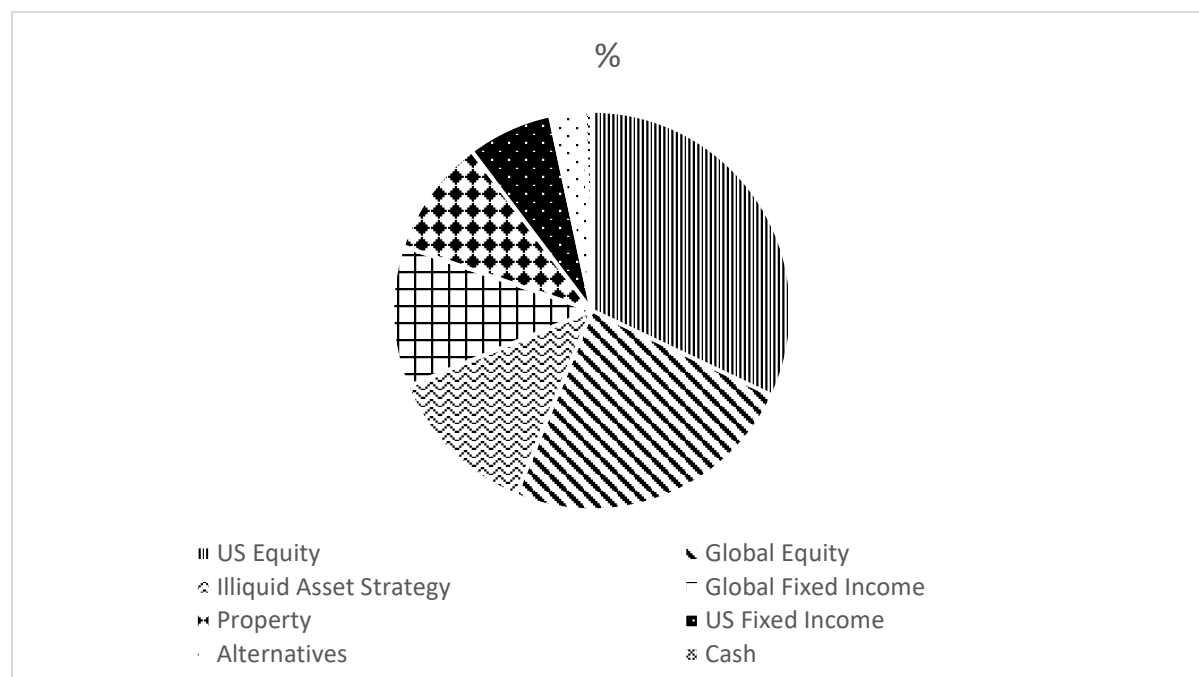
30 September 2021

	£'000	%
JP Morgan	271,407	79.4%
SEI	35,974	10.5%
Savills	11,005	3.2%
CCLA	10,914	3.2%
Mayfair Capital	10,795	3.2%
Charifund	1,575	0.5%
TOTAL	341,670	100.0%

JP Morgan holdings comprise liquid investments of £263.947m along with a private investment (£7.460m) transferred to JP Morgan's management.

The Trust continues to have residual holdings with SEI of £35.974m comprising illiquid funds with delayed transition to JP Morgan including an infrastructure fund (£18.370m), Structured Credit Fund (£12.158m) and private market investment (£5.446m).

Investment Portfolio Split by Type



	30 September 2021	
	£'000	%
US Equity	110,285	32.4%
Global Equity	83,458	24.5%
Illiquid Asset Strategy	43,434	12.7%
Global Fixed Income	39,788	11.6%
Property	32,714	9.6%
US Fixed Income	24,045	7.0%
Alternatives	9,686	2.8%
Cash	146	0.0%
Foreign currency forward contracts	(1,886)	(0.6%)
Total	341,670	100.0%

PRINCIPAL RISKS

A formal risk register is maintained and is reviewed annually at Board level. The purpose of the review is to look at key risks and the effectiveness of procedures in place to mitigate them.

Risks can have a short term and/or a long-term impact on the Trust's ability to meet its objectives. Those monitoring each risk advise the Board on actions that should be taken to manage risk, and report periodically on the effectiveness of their oversight.

The Trust has identified the following principal risks and steps to mitigate the risk.

Reduction in expected returns from investments due to stock market declines – the Trust has engaged an external fiduciary manager and pursues an asset allocation policy to diversify risk and conserve capital in real terms. There are regular reviews of investment strategy and policy (in light of the Trust's financial plans) by the Finance and Investment Committee and the Trust's fiduciary

manager. These are tabled at Board meetings for discussion and approval. The Trust considers that it is unlikely to be impacted by short-term market volatility given the portfolio is well-diversified and there are sufficient liquid assets to meet its spending requirements.

Failure of the Trust to earn an appropriate return from its assets – the Trust has engaged external investment managers, who provide at least annual update presentations to the Finance and Investment Committee, along with quarterly performance reviews. Regular reviews of long-term expected returns compared with expected spending are performed.

Risk of loss of Chairman and other Trustees – the Trust has a policy of reviewing the number, skills and diversity of Trustees and seeks new ones as necessary.

Risk of loss of key management personnel – Trustees aim to keep apprised of staff plans.

Risk of cybercrime – the Trust uses cloud-based secure storage and maintains protection software. The Trust employs external IT consultants to ensure data security and prevention of data loss. This is regularly reviewed to ensure compliance with GDPR. Cyber Essentials Certification was attained in 2021 and is to be maintained on an ongoing basis.

RESERVES

The Trust has only a small endowment. However, it has used the royalty income it has received to build up reserves so that it will be able to fund its charitable activities when royalty income ceases. The Trustees maintain funds in order to generate a sufficient return to fund current and future charitable activities (described elsewhere in this Report). The Trust wishes to have adequate sums to continue to support the Institute for the foreseeable future.

It is the aim of the Trustees to maintain the value of reserves in real terms over a reasonable time horizon, fulfilling the charitable objectives of the Trust by using both income and capital growth to meet expenditure.

The level of reserves is monitored on a quarterly basis by means of management accounts and cash flow forecasts.

The Trust holds unrestricted reserves in the form of designated funds that are earmarked (as described below) to meet the funding due to the Institute under the new agreement (the Oxford Research Grant Fund 2021). There is also a fund to meet future legal expenses (the Legal Expense Fund).

Oxford Research Grant Fund – the Trust had a commitment to fund the Institute at a level of at least £3m pa (adjusted for inflation) for ten years, which ended on 31 July 2021. A designated fund had therefore been set up to reflect these funding requirements and £3.051m of the grants issued to Oxford during the year (2020: £3.620m) have been set against this fund. The residual balance of £2.958m at the end of the contract life was released to the Unrestricted General Funds.

The Trust signed a further agreement with the University of Oxford on 18 October 2018 under which it restated its intention to support the Institute. A designated fund of £22.103m was set up in the 2019 financial year to reflect this and represents funding of £4m a year (adjusted for inflation) from 1 August 2021 through to 31 July 2026. Grants issued to Oxford following the contract commencement date of 1 August 2021 of £0.667m (2020: nil) have been set against this fund.

Trustees consider that it is more correct to show this commitment by means of a designated fund rather than as a grant creditor because the Trust has the right to refuse payment if no suitable projects are put forward.

Legal Expense Fund – the purpose of the Legal Expense Fund is to provide the means to enforce and protect patent rights and licence terms, by arbitration or litigation, and to meet the costs of current and future disputes concerning either the validity of the Trust’s patents or royalties payable to the Trust.

A decision was taken during 2017 to reduce the level of this fund by £5m and in April 2019 it was reduced by a further £5m. This reflects the fact that as the royalties cease the risk of becoming involved in litigation diminishes.

The balance as at 30 September 2021 was £1.067m (2020: £1.085m).

As at 30 September 2021 the monies held in designated funds amounted to £22.503m (2020: £29.197m) distributed across the following funds:

	£ ‘000
Legal Expense Fund	1,067
Oxford Research Grant Fund	-
Oxford Research Grant Fund 2021	<u>21,436</u>
	<u>22,503</u>

When the Trustees deem it appropriate, the Trust will draw from its reserves, as well as income, to fund its activities. Based on the accounts as at 30 September 2021, total reserves are £306.4m (2020: £276.3m). Excluding restricted funds (£1.6m) and designated funds (£22.5m) leaves £282.3m in the general fund that could be utilised, if required.

Whilst these could be considered ‘free reserves’, the Trustees do not believe that this is an appropriate measure for the Trust. The accumulation of reserves in general funds, arising from royalty income and investment returns is in line with the power conferred on the Trust to hold income in reserve and to be used to generate investment income to apply on charitable activities. The Trust’s policy had been discussed with the Charity Commission. The Trustees consider the current level of reserves to be appropriate in light of its ambition to provide long-term support to scientists working in the fields of fundamental and translational research into musculoskeletal and related diseases along with future Covid-19 responses.

As at 30 September 2021, total Trust funds stood at £306.4m (2020: £276.3m) held in the following types of fund:

	£ ‘000
Endowment Funds	1,575
General Fund	282,350
Designated Funds	<u>22,503</u>
	<u>306,428</u>

CHARITY INFORMATION

Registered Office

Boundary House
91 Charterhouse Street
London EC1M 6HR

Registered Charity No: 260059
Registered Company No: 963832

Business Address

One Lyric Square
London W6 0NB

Telephone: 020 8049 8136

President

Professor Sir Ravinder Maini

Vice Presidents*

Dr. Colin Barnes
Mrs. Bella Sunley

*Vice-Presidents hold an honorary position and are not trustees

Board of Trustees

Professor Sir Stephen Holgate (Chair)
Mr. Edmund Buckley
Mr. Christopher Coombe (appointed 22 June 2021)
Professor Andrew Cope
Mr. Mark Dighero
Mrs. Margaret Frost
Professor Hill Gaston
Mr. Rodney Hornstein (resigned 13 August 2021)
Professor Tracy Hussell (appointed 12 October 2021)
Mrs. Jennifer Johnson
Mr. David Paterson (resigned 12 October 2021)
Professor Michael Patton (appointed 22 June 2021)
Mr. Richard Punt (appointed 22 June 2021)
Dr. Paul Satchell (appointed 22 June 2021)
Ms. Victoria White
Sir Gregory Winter (resigned 23 March 2021)

Officers

Mr. Pierre Espinasse (Chief Executive Officer)
Mrs. Susan Johanson (Secretary)

Independent Auditors

MHA MacIntyre Hudson
6th Floor
2 London Wall Place
London EC2Y 5AU

Bankers

Lloyds TSB Bank PLC
25 King Street
Hammersmith
London W6 9HW

Investment Advisers

J.P. Morgan SE (appointed 2 July 2021 and previously J.P. Morgan Bank Luxembourg S.A., London branch until 22nd January 2022)
60 Victoria Embankment
London EC4Y 0JP

SEI Investments (Europe) Limited (until 2 July 2021)
1st Floor, Alphabeta
14-18 Finsbury Square
London EC2A 1BR

Legal Advisers

Amster Rothstein & Ebenstein LLP
(previously Cooper & Dunham LLP)
845 Third Avenue, 6th Floor
New York, NY 10022

Stone King LLP
Boundary House
91 Charterhouse Street
London EC1M 6HR

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Trustees (who are also directors of the Trust for the purposes of company law) are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires Trustees to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the charitable company and of the incoming resources and application of resources, including the income and expenditure, of the charitable company for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities Statement of Recommended Practice;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business.

The Trustees are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other regularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

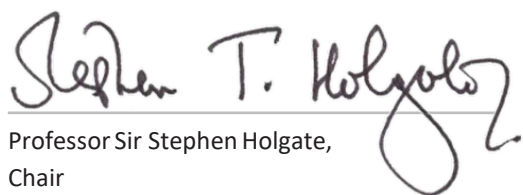
In so far as the Trustees are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware; and
- the Trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.
- The Trustees' Annual Report is approved by the Trustees of the charity. The Strategic Report, which forms part of the Annual Report, is approved by the Trustees in their capacity as Directors in company law of the charity.

Auditors

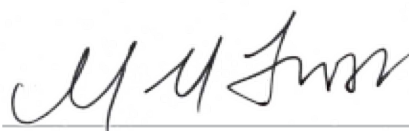
The auditors, MHA MacIntyre Hudson were appointed auditors during the year end and are deemed to be reappointed under section 487(2) of the Companies Act 2006.

By order of the Board of Trustees.



Professor Sir Stephen Holgate,
Chair

22nd March 2022



Margaret Frost,
Chair of the Finance and Investment Committee

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE KENNEDY TRUST FOR RHEUMATOLOGY RESEARCH

Opinion

We have audited the financial statements of The Kennedy Trust for Rheumatology Research (the 'charitable company') for the year ended 30 September 2021 which comprise the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 30 September 2021, and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements section of our report.

We are independent of the charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Trustees' assessment of the entity's ability to continue to adopt the going concern basis of accounting included critical reviews of budgets and forecasts provided.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the charitable company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustees with respect to going concern are described in the relevant sections of this report.

Other information

The Trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Trustees' report (incorporating the Strategic Report and the Directors' report) for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Trustees

As explained more fully in the Trustees' responsibilities statement (set out on page 24), the Trustees (who are also the Directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

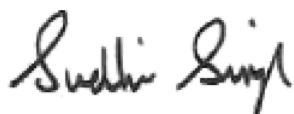
- Obtaining an understanding of the legal and regulatory frameworks that the entity operates in, focusing on those laws and regulations that had a direct effect on the financial statements;
- Enquiry of management and those charged with governance to identify any instances of known or suspected instances of fraud;
- Enquiry of management and those charged with governance around actual and potential litigation and claims;
- Enquiry of management about any instances of non-compliance with laws and regulations;
- Reviewing the control systems in place and testing the effectiveness of the controls;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness;
- Evaluating the business rationale of significant transactions outside the normal course of business;
- Reviewing accounting estimates for bias;
- Reviewing minutes of meetings of those charged with governance; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>. This description forms part of our auditor's report.

Use of this report

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Sudhir Singh FCA (Senior Statutory Auditor)

For and behalf of

MHA MacIntyre Hudson

Statutory Auditor

London, United Kingdom

Date: 28 March 2022

ACCOUNTS

Statement of Financial Activities for the Year Ended 30 September 2021 (incorporating Income and Expenditure Account)

	Note	Unrestricted Funds 2021 £'000	Endowment Funds 2021 £'000	Total Funds 2021 £'000	Total Funds 2020 £'000
Income from Charitable Activities					
- Donations and Legacies		-	-	-	3
Income from other Trading Activities					
- Royalty Income		735	-	735	924
- Reimbursement of Patent Costs		13	-	13	66
- Co-funding of Research Initiatives		-	-	-	50
Investment Income	10b	10,042	-	10,042	7,762
Other Income					
- Exchange gain		11	-	11	-
Total Income		10,801		10,801	8,805
Expenditure on Charitable Activities					
- Research Funding	4,12	18,680	-	18,680	8,066
Costs of Raising Funds					
- Intellectual Property Protection	4, 5	36	-	36	96
- Royalty Sharing Payments	4, 5	514	-	514	612
- Investment Advice	4, 5	1,579	-	1,579	1,188
Other Expenditure					
- Exchange loss		-	-	-	1
Total Expenditure		20,809	-	20,809	9,963
Net Loss before Investment Gains\Losses		(10,008)	-	(10,008)	(1,158)
Net Gains\Losses on Investments					
Realised Gain\Loss	10a	32,244	-	32,244	(2,151)
Unrealised Investment Gain\Loss	10a	7,573	342	7,915	(12,119)
		39,817	342	40,159	(14,270)
Net Income\Loss		29,809	342	30,151	(15,428)
Total Funds brought forward		275,044	1,233	276,277	291,705
Total Funds carried forward	15	304,853	1,575	306,428	276,277

The detailed 2020 comparative Statement of Financial Activities is reported in note 2.
The notes on pages 32 to 51 form part of these financial statements.

Balance Sheet as at 30 September 2021

	Note	30 September 2021 £'000	30 September 2020 £'000
Fixed Assets			
Investments	10a	341,670	302,293
		341,670	302,293
Current Assets			
Debtors	11	667	803
Cash at Bank and in hand		3,095	1,906
		3,762	2,709
Creditors (amounts falling due within one year):			
Sundry Accruals and Creditors	12	(371)	(532)
Grant Payments due within One Year		(8,909)	(8,931)
		(9,280)	(9,463)
Net Current Assets		(5,518)	(6,754)
Total Assets less Current Liabilities		336,152	295,539
Creditors (Amounts falling due after more than One Year)	13	(29,724)	(19,262)
Net Assets	14	306,428	276,277
Funds			
Unrestricted - Designated	15	22,503	29,197
Unrestricted - General	15	282,350	245,847
Unrestricted - Total		304,853	275,044
Endowment	15	1,575	1,233
Total Funds		306,428	276,277

Company Registration Number: 963832

These Accounts were approved by the Trustees and authorised for issue on 22nd March 2022.


Professor Sir Stephen Holgate
Chairman of the Board of Trustees


Margaret Frost
Chair of the Finance and Investment Committee

The notes on pages 32 to 51 form part of these financial statements.

Statement of Cash Flows for the Year Ended 30 September 2021

	Year Ended 30 September 2021 £'000	Year Ended 30 September 2020 £'000
Net Cash used in Operating Activities (Note a)	(9,387)	(6,889)
Cashflow from Investing Activities (Note b)	10,576	7,740
	1,189	851
Cash and Cash Equivalents at 1 October	1,906	1,055
Cash and Cash Equivalents at 30 September	3,095	1,906

a. Net Cash used in Operating Activities

	2021 £'000	2020 £'000
Net income/(expenditure) for the year	30,151	(15,428)
Investment income	(10,042)	(7,762)
(Gains)/losses on investments	(40,159)	14,270
Add back investment management costs	248	-
Increase in creditors	10,279	1,555
Decrease in debtors	136	476
Net Cash Flow from Operating Activities	(9,387)	(6,889)

b. Cash Flow from Investing Activities (Note b)

	2021 £'000	2020 £'000
Payments to acquire investments	(272,872)	(16,560)
Receipts from sales of investments	273,406	16,538
Investment income	10,042	7,762
Net Cash Flow from Investing Activities	10,576	7,740

c. Analysis of Changes in Cash and Cash Equivalents

	30 September 2020 £'000	Cash Flows £'000	30 September 2021 £'000
Cash at Bank	1,906	1,189	3,095

As the Trust does not have any debt, an analysis of net debt has not been produced.

Notes to the Accounts

1. Summary of Significant Accounting Policies

(A) GENERAL INFORMATION AND BASIS OF PREPARATION

The Kennedy Trust for Rheumatology Research is a company limited by guarantee registered in England. In the event of the charity being wound up, the liability in respect of the guarantee is limited to £1 per member of the charity. The address of the registered office is given in the charity information on page 22 of these financial statements. The nature of the charity's operations and principal activities are to investigate, study and carry out, or procure the carrying out of, research into the causes and means of treatment of Rheumatism and allied diseases.

The charity constitutes a public benefit entity as defined by FRS 102. The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) second edition issued October 2019, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102), the Charities Act 2011 and the Companies Act 2006.

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value. The financial statements are presented in sterling which is the functional currency of the charity and rounded to the nearest £'000.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

(B) FUNDS

Unrestricted funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the charity and which have not been designated for other purposes.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The aim and use of each designated fund is set out in the notes to the financial statements.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the charity for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the notes to the financial statements.

Endowment funds represent those assets which must be held permanently by the charity, principally the Maynard Jenour Fund and the Kennedy Endowment Fund. Income arising on the endowment funds can be used in accordance with the objects of the charity and is included as unrestricted income. Any capital gains or losses arising on the investments form part of the fund. Investment management charges and legal advice relating to the fund are charged against the fund.

(C) INCOME RECOGNITION

All incoming resources are included in the Statement of Financial Activities (SoFA) when the charity is legally entitled to the income after any performance conditions have been met, the amount can be measured reliably, and it is probable that the income will be received.

For donations to be recognised the charity will have been notified of the amounts and the settlement date in writing. If there are conditions attached to the donation and this requires a level of performance before entitlement can be obtained, then income is deferred until those conditions are fully met or the fulfilment of those conditions is within the control of the charity and it is probable that they will be fulfilled.

Investment income is earned through holding assets for investment purposes such as shares and property. It includes dividends and interest. Where it is not practicable to identify investment management costs incurred within a scheme with reasonable accuracy the investment income is reported net of these costs. It is included within cost of raising funds when the amount can be measured reliably. Interest income is recognised using the effective interest method and dividend income is recognised as the charity's right to receive payment is established.

Income from royalty and license agreements is recognised throughout the year when there is reasonable assurance of receipt. Royalty and license income are recognised gross of the related revenue share obligations to the Inventors and other parties which are payable on recognition of the royalty income. License agreements also provide for the reimbursement of patent protection costs in certain cases.

(D) EXPENDITURE RECOGNITION

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Expenditure is recognised where there is a legal or constructive obligation to make payments to third parties, it is probable that the settlement will be required, and the amount of the obligation can be measured reliably. It is categorised under the following headings:

- Costs of raising funds includes royalty sharing payments, intellectual property protection & investment advice;
- Expenditure on charitable activities includes research science funding and research infrastructure funding.

The Trust was registered for VAT until 7 May 2019 at which time it deregistered. Whilst the Trust was registered for VAT, the recoverable aspect of VAT was removed from the expense and against the activity for which expenditure arose. Subsequent to deregistration, VAT is recorded against the expense and activity for which expenditure arose.

Grants payable to the Institute and to other third parties are within the charitable objectives. Where unconditional grants are offered, this is accrued as soon as the recipient is notified of the grant, as this gives rise to a reasonable expectation that the recipient will receive the grants. Where grants are conditional relating to performance then the grant is only accrued when any unfulfilled conditions are outside of the control of the charity.

The provision for a multi-year grant is recognised at its present value where settlement is due over more than one year from the date of the award, there are no unfulfilled performance conditions

under the control of the Trust that would permit the Trust to avoid making the future payment(s), settlement is probable and the effect of discounting is material. The discount rate used is the Trust's target rate of return on investment, currently CPI +3%. This discount rate is regarded by the Trustees as providing the most current available estimate of the opportunity cost of money reflecting the time value of money to the Trust. The discount rate was updated during the year from the average rate of inflation in the year in which the grant award is made. The effect of the rate applied has been quantified in the Financial Report on page 15 and notes 4 and 13.

Royalty sharing payments are calculated by applying a formula for the distribution of royalty income agreed by the Trustees and Versus Arthritis UK, which reflects current UK university practice. Such payments are accrued in line with the corresponding royalty income.

Investment advice reflects the costs incurred by the Trust in managing its investment portfolios. The cost includes both internal costs and external consultancy and management costs. Cost is recognised in line with the accruals basis above.

(E) SUPPORT COSTS ALLOCATION

Support costs are those that assist the work of the charity but do not directly represent charitable activities and include office costs, governance costs and administrative payroll costs. They are incurred directly in support of expenditure on the objects of the charity and include grant management carried out by the Trust's employees. Where support costs cannot be directly attributed to particular headings they have been allocated to cost of raising funds and expenditure on charitable activities on a basis consistent with use of the resources. Premises overheads and other overheads have been allocated either on time spent or on another basis as appropriate.

The analysis of these costs is included in note 6.

(F) TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost (or deemed cost) or valuation less accumulated depreciation and accumulated impairment losses. Cost includes costs directly attributable to making the asset capable of operating as intended. The agreed capitalisation limit of tangible assets has been agreed at £500.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life. The most appropriate depreciation rates for asset groups will be decided by the key management personnel when the need arises. IT equipment is deemed to have a useful economic life of one year.

(G) INVESTMENTS

Investments are recognised initially at fair value which is normally the transaction price excluding transaction costs. Subsequently, they are measured at fair value with changes recognised in 'net gains / (losses) on investments' in the Statement of Financial Activities if the shares are publicly traded or their fair value can otherwise be measured reliably. The Trustees have deemed that the fair value of unlisted open ended investment companies (OEIC's) and illiquid property fund investments, equates to the charity's share of the Net Asset Value (NAV) of the assets held, based on

the market prices as at the valuation date. Investment gains and losses are shown split between realised and unrealised.

(H) DEBTORS AND CREDITORS RECEIVABLE / PAYABLE WITHIN ONE YEAR

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in expenditure.

(I) PROVISIONS

Provisions are recognised when the charity has an obligation at the balance sheet date as a result of a past event, it is probable that an outflow of economic benefits will be required in settlement and the amount can be reliably estimated.

(J) LEASES

Rentals payable and receivable under operating leases are charged to the Statement of Financial Activities on a straight-line basis over the period of the lease.

(K) FOREIGN CURRENCY

Foreign currency transactions are initially recognised by applying to the foreign currency amount the best available exchange rate between the functional currency and the foreign currency at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency at the balance sheet date are translated using the closing rate. Gains and losses on exchange are allocated to the appropriate resource.

Forward exchange contracts are used solely to manage the exposure to foreign exchange rate risks in respect of the Trust's investment portfolio.

(L) EMPLOYEE BENEFITS

When employees have rendered service to the charity, short-term employee benefits to which the employees are entitled are recognised at the undiscounted amount expected to be paid in exchange for that service.

The charity contributes to the personal pension schemes of the employees and all costs are charged to the Statement of Financial Activities in the year to which they relate.

(M) TAX

The charity is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. It therefore does not suffer tax on income or gains applied for charitable purposes.

The Trust was registered for VAT until 7 May 2019 at which time it deregistered, irrecoverable VAT is written off as part of the expense to which it relates.

(N) GOING CONCERN

The financial statements have been prepared on a going concern basis as the Trustees believe that no material uncertainties exist. The Trustees have considered the level of funds held and the expected level of income and expenditure for 12 months from authorising these financial statements and the impact of Covid-19. The budgeted income and expenditure is sufficient with the level of reserves for the charity to be able to continue as a going concern.

(O) FINANCIAL INSTRUMENTS

The charity holds both basic and complex Financial Instruments. The Trust has elected to apply the provisions of Section 11 and Section 12 of FRS 102 in full in respect of financial instruments. The financial assets and financial liabilities of the Charity are as follows:

Debtors – trade and other debtors (including accrued royalty income) are basic financial instruments measured at amortised cost.

Cash at bank – is classified as a basic financial instrument and is measured at face value.

Liabilities – trade creditors, accruals and other creditors will be classified as financial instruments, and are measured at amortised cost as detailed in notes 12 and 13. Taxation and social security are not included in the financial instruments disclosure. Deferred income is not deemed to be a financial liability, as the cash settlement has already taken place and there is simply an obligation to deliver charitable services rather than cash or another financial instrument.

Investments – a number of investments held at the year-end are classified as complex financial instruments as they are unlisted open ended investment companies (OEIC's). Under Section 11.24 of FRS 102 SORP 2019 the subsequent measurement of complex financial instruments should be at fair value and all changes in the fair value should be recognised in the Statements of Financial Activities. The Trustees have deemed that the fair value of these investments equates to the charity's share of the Net Asset Value (NAV) of the assets held, based on the market prices as at the valuation date. The Trust deems its derivative instruments as complex financial instruments and the Trust's policy is explained below. All other investments are classified as basic financial instruments and held at their market value.

Derivative instruments – The Trust uses Forward foreign currency contracts to reduce exposure to foreign exchange rates solely in respect of its investment portfolio. Derivative financial instruments are initially measured at fair value on the date the derivative contract is entered into and are subsequently re-measured to fair value at each reporting date. Fair value gains and losses are recognised in the SoFA.

(P) JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The following judgements (apart from those involving estimates) have been made in the process of applying the above accounting policies that have had the most significant effect on amounts recognised in the financial statements:

- Allocation of support costs are made in line with the use of the resource
- Fund allocation

- Discounting of the provisions for multi-year grants liabilities to present value. Internal estimation is required in calculating the appropriate discount rate and determining when the liability will fall due
- Fair value of investments
- Foreign currency exchange rates.

There are no other key assumptions concerning the future or key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2. Detailed Comparatives for the Statement of Financial Activities

	Unrestricted Funds 2020 £'000	Endowment Funds 2020 £'000	Total Funds 2020 £'000
Incoming from Charitable Activities			
- Donations and Legacies	3		3
Incoming from other trading activities			
- Royalty Income	924		924
- Reimbursement of Patent Costs	66		66
- Co-funding of Research Initiatives	50		50
Investment Income	7,762		7,762
Other Income			
- Exchange gain	-		-
Total Income	8,805	-	8,805
Expenditure on Charitable Activities			
- Research Funding	8,066		8,066
Costs of Raising Funds			
- Intellectual Property Protection	96		96
- Royalty Sharing Payments	612		612
- Investment Advice	1,188		1,188
Other Expenditure			
- Exchange loss	1		1
Total Expenditure	9,963	-	9,963
Net Income before Investment Losses	(1,158)	-	(1,158)
Net Losses on Investments			
Unrealised Investment Loss	(11,724)	(395)	(12,119)
Realised Loss	(2,151)		(2,151)
	(13,875)	(395)	(14,270)
Net Loss	(15,033)	(395)	(15,428)
Total Funds brought forward	290,077	1,628	291,705
Total Funds carried forward	275,044	1,233	276,277

3. Net Income for the Year

Net income for the year is arrived at after charging the following:

	Year Ended 30 September 2021 £'000	Year Ended 30 September 2020 £'000
Auditors Remuneration (for audit services only)	27	20
Exchange Rate Gain/ (Loss)	11	(1)
Lease expense	80	80

4. Analysis of Expenditure

	Direct Costs £'000	Support Costs £'000	Discounting of grant liabilities £'000	Total Year Ended 30 Sept 2021 £'000	Total Year Ended 30 Sept 2020 £'000
Royalty Sharing Payments	470	44	-	514	612
Investment Advice	1,509	70	-	1,579	1,188
Intellectual Property Protection	21	15	-	36	96
Research Science Funding	23,385	241	(4,946)	18,680	8,066
Total Resources Expended	25,385	370	(4,946)	20,809	9,962

The total awards granted was £27.337m (2020- £8.487m).

The £23.385m Research Science Funding shown above (2020: £7.759m) is net of grant write backs and other adjustments of £3.952m (2020: £0.728m) comprising agreed cancellations (£2.948m), grant write backs (£0.673m) and replacements (£0.331m).

The Trust monitors the effect of discounting of multi-year grant liabilities to present value and it considers the current year effect at £4.946m to be material. This is the first reporting period the effect has been considered material, resulting from an increase in the level of multi-year grant liabilities and inflation. The Trust's policy for the discount rate is to use the Trust's target return of investment return currently CPI +3%, and is taken to be a total rate of 6.1%.

Details of grants awarded during the year are shown on page 11 in the Trustees' Report.

Investment Advice includes £233k of anti-dilution levies incurred upon sale of SEI (£206k) and Newton (£27k) holdings as part of the fiduciary manager transition. Fiduciary manager transition advisory costs of £47k were incurred.

4. Analysis of Expenditure – continued

2020 Comparatives

	Direct Costs £'000	Support Costs £'000	Total Year Ended 30 Sept 2020 £'000
Royalty Sharing Payments	589	23	612
Investment Advice	1,125	63	1,188
Intellectual Property Protection	65	31	96
Research Science Funding	7,759	307	8,066
Total Resources Expended	9,538	424	9,962

5. Support Costs

The total support costs incurred by the Trust amount to £0.370m (2020: £0.424m). An analysis of the main categories of expenditure included within support costs and the apportionment of these costs to the key activities undertaken by the Trust is set out in the table below.

6. Analysis of Support Costs

	Research £'000	Intellectual Property £'000	Royalties £'000	Investment £'000	2021 Total £'000
Staff Costs	126	10	14	49	199
Office and General Costs	90	4	22	18	134
Governance Costs	25	1	8	3	37
Total	241	15	44	70	370

Staff costs are apportioned according to time spent on various activities. Other costs are allocated directly.

2020 Comparatives

	Research £'000	Intellectual Property £'000	Royalties £'000	Investment £'000	2020 Total £'000
Staff Costs	133	13	16	43	205
Office and General Costs	46	5	-	-	51
Governance Costs	128	13	7	20	168
Total	307	31	23	63	424

7. Analysis of Governance Costs

	Year Ended 30 Sept 2021 £'000	Year Ended 30 Sept 2020 £'000
Audit & Accountancy	27	20
Office Costs	5	128
Legal & Professional	1	7
Other	4	10
Recruitment Costs	-	3
	37	168

2021 office costs have reduced resulting from reallocation of £96k of office operational costs from governance to support costs.

8. Payments to Trustees and Staff Costs

The members of the Board of Trustees receive no emoluments for their service in that capacity.

The Trust continued to work remotely during most of the year in line with government COVID-19 guidelines, with Board and Committee meetings held via video-conferencing resulting in a low level of Trustee expenses. 1 Trustee (2020: 11) has been reimbursed for travel and subsistence expenses directly incurred in carrying out their activities as Trustees at a cost of £102 (2020: £1,566).

Total staff costs are set out in the table below.

Staff and Consultancy Costs

	Year Ended 30 September 2021 £'000	Year Ended 30 September 2020 £'000
Staff Salaries	167	171
National Insurance	15	16
Employer contributions to pensions	16	17
Total Staff Costs	198	204

The total employer pension contributions made in respect of higher paid employees were £10,071 (2020: £10,001).

Average staff numbers during the year comprise 3 part-time (2 full time equivalent) members of staff (2020: 4 part-time - 1.9 full time equivalent).

The Chief Executive Officer and the Secretary to the Board form the Trust's Key Management Personnel.

Total remuneration paid to key management personnel:

	Year Ended 30 September 2021 £'000	Year Ended 30 September 2020 £'000
Staff Salaries	146	154
National Insurance	14	15
Employer contributions to pensions	15	15
Total Staff Costs	175	184

The table below summarises the number of employees who received £60,000 or more in the year:

	2021	2020
Employees paid between £70,000 and £80,000	-	-
Employees paid between £90,000 and £100,000	-	-
Employees paid between £100,000 and £110,000	1	1

9. Related Party Transactions

Royalty income from Janssen has been included in incoming resources. Following Charity Commission approval, the Trustees have apportioned part of the royalty payments to the inventors and Versus Arthritis, according to a formula in line with current UK university practice.

Professor Sir Ravinder Maini was an employee of the Institute, responsible with Professor Feldmann for the invention which subsequently led to the generation of royalty income. Under a royalty distribution arrangement agreed with Versus Arthritis, and in line with current UK university practice, he and Professor Feldmann are entitled to an equal share of royalty income.

Following Professor Maini's appointment as a Trustee of the Trust, Charity Commission approval was obtained for the continuing payment of his share of the royalty income. In 2021 £125,058 (2020: £156,656) was receivable by Professor Maini. The balance outstanding at the year end was £59,745 (2020: £53,757). Professor Maini ceased to be a Trustee on 11 December 2018, but remains the Trust's President.

10. Investments

(a) Investments held with Investment Managers

	30 September 2021 £'000	30 September 2020 £'000
Movement on Investments:		
Market Value brought forward	302,293	316,541
Net Additions at Cost	272,872	16,560
Disposals at Market Value	(273,406)	(16,538)
Investment Management Costs	(248)	-
Realised Gain/(Loss)	32,244	(2,151)
Unrealised Investment Gain/(Loss)	7,915	(12,119)
Market Value carried forward	341,670	302,293
Historic Costs of Investments	335,703	244,690
Cumulative Unrealised Gains	5,967	57,603
	341,670	302,293

The Trust appointed JP Morgan in place of its manager SEI during the year. The transition of liquid assets was completed during the final quarter of the financial year with the sale of SEI liquid assets and Ruffer and Newton holdings achieving net proceeds of £257.901m driving disposals of £273.406m. The sale proceeds were invested by JP Morgan in liquid holdings reflected in the total current year additions of £272.872m. A further £2.9m was raised from partial redemption of the Structured Credit Fund.

The Statement of Financial Activities included net gains on investments of £40.159m (2020: losses of £14.270m) which includes unrealised gains of £7.915m (2020: losses of £12.119m). The transition to JP Morgan accounts for £30.8m of the realized gain on investments of £32.2m.

The Investment Management Costs of £248k includes £233k of anti-dilution levies incurred upon sale of SEI (£206k) and Newton (£27k) holdings as part of the fiduciary manager transition. £15k is JP Morgan management fees deducted from cash holdings in the investment portfolio.

As in previous years private market distributions are allocated to Investment Income.

10. Investments

(a) Investments held with Investment Managers – continued

Investments held with Investment Managers represented by:

		30 September 2021 £'000	30 September 2020 £'000
Investments not designated to funds:			
Overseas Listed Securities	Dublin	222,919	-
	Luxembourg	42,768	-
Overseas Unlisted Securities	Dublin	18,371	205,855
	Other	25,064	24,045
UK Unlisted Securities		32,713	71,160
Foreign currency forward contracts		(1,886)	-
Cash		146	-
Assets representing the Maynard Jenour Fund:			
UK Authorised Unit Trusts		106	83
Assets representing the Kennedy Endowment Fund:			
UK Authorised Unit Trusts		1,469	1,150
		341,670	302,293

The Trust transitioned its fiduciary manager appointment from SEI to JP Morgan during the year. SEI, Newton and Ruffer liquid holdings were sold with the proceeds invested by JP Morgan in predominantly overseas listed investment vehicles.

Overseas Listed Securities

Overseas Listed Securities include Société d'Investissement à Capital Variable (SICAV), or investment company with variable capital (also known as an 'open-ended investment company') and which issues shares. With SICAVs, the fund itself is a stock corporation and thus a legal entity. The company's capital depends on the amounts paid in by investors. Shares in a SICAV are bought and sold on the basis of the value of the fund's assets, or net asset value. In accordance with applicable law and regulations, a SICAV can either appoint a separate management company or can be self-managed. SICAVs are structured much like a mutual fund in the US and are very common investment vehicles in Luxembourg.

10. Investments

(a) Investments held with Investment Managers – continued

Open-end investment company (OEIC) or investment company with variable capital (ICVC) are types of open end collective investments formed as corporations in Ireland or the UK. The terms are used interchangeably and most funds in Ireland establish a formal legal structure of “open end investment company with variable capital”, as listed in their Prospectus. These funds are typically set up under the UCITS regulation and are similar to umbrella mutual funds. The investment company will have segregated liability between its underlying sub-funds. Similar to SICAVs, since the investment company is open ended, investors buy and sell shares based on the net asset value of a fund’s assets.

iShares Physical Gold – this is an exchange traded commodity that is incorporated as a public company with limited liability under the laws of Ireland. The ETC seeks to track the day-to-day movement of the price of gold by holding gold bullion. The gold bullion backs the securities issued and is valued daily at the London PM fix price. The gold bullion is held as allocated gold bars with the custodian.

Overseas Unlisted Securities

The Dublin based Overseas Unlisted Securities are made up of Dublin domiciled open-ended investment companies under the UCITS directive. In addition it includes a property fund which is an Irish domiciled Common Contractual Fund supervised by the Irish Central Bank.

The underlying holdings in these funds are to a very large extent made up of shares in companies listed on recognised stock exchanges worldwide.

Overseas Unlisted Securities are closed end investment partnerships and a segregated portfolio company based in the Cayman Islands.

(b) Investment Income

	30 September 2021 £'000	30 September 2020 £'000
Bank Interest	-	1
Listed and Unlisted Investments	10,042	7,761
Total Investment Income	10,042	7,762

All income generated from investments held within endowments are recognised in the Statement of Financial Activities as unrestricted investment income.

As in previous years private market distributions are allocated to Investment Income.

11. Debtors

	30 September 2021 £'000	30 September 2020 £'000
Royalty Accrued Income	239	316
Other Accrued Income	345	348
Sundry Debtors	83	139
Total Debtors	667	803

12. Sundry Creditors and Accruals

	30 September 2021 £'000	30 September 2020 £'000
Royalties Payable	225	202
Other Creditors and Accruals	140	325
Taxation and Social Security	6	5
Total Creditors	371	532

13. Creditors falling due after more than One Year

The balance of grants payable is as follows:

	30 September 2021 £'000	30 September 2020 £'000
Grant Payments due between one and five years	30,128	18,798
Grant Payments due after five years	4,542	464
Discounting of grant liabilities	(4,946)	-
Commitments and Provisions due after One Year	29,724	19,262

The Trust monitors the effect of discounting multi-year grant liabilities to present value and it considers the current year impact at £4.946m to be material. The current year is the first reporting period the effect of discounting multi-year grant liabilities has been considered material, resulting from an increase in the level of grant awards and inflation. Applying a discount rate of the Trust's target return of investment return currently CPI +3%, considered to be a total rate of 6.1%, the total value of the grant liabilities discount for the year ended 30 September 2021 is £4.946m.

14. Analysis of Net Assets as at

	30 September 2021			30 September 2020		
	Unrestricted Funds £'000	Endowment Funds £'000	Total £'000	Unrestricted Funds £'000	Endowment Funds £'000	Total £'000
Fixed Assets:						
Investments	340,095	1,575	341,670	301,060	1,233	302,293
Current Assets						
Debtors	667	-	667	803	-	803
Cash at Bank and In Hand	3,095		3,095	1,906	-	1,906
	343,857	1,575	345,432	303,769	1,233	305,002
Current Liabilities	9,280	-	9,280	9,463	-	9,463
Long Term Liabilities	29,724	-	29,724	19,262	-	19,262
	304,853	1,575	306,428	275,044	1,233	276,277

15. Funds

	30 September 2020 £'000	Income/ (Expenditure) £'000	Expenditure from Designated Funds £'000	Transfers £'000	Investment Profits £'000	30 September 2021 £'000
Endowment Funds						
Maynard Jenour Fund	82				23	105
Kennedy Endowment Fund	1,151				319	1,470
Total Endowment Funds	1,233	-	-	-	342	1,575
Unrestricted Funds						
General Fund	245,847	(10,008)	18	6,676	39,817	282,350
Designated Funds						
Legal Expense Fund	1,085		(18)			1,067
Oxford Research Grant Fund	6,009			(6,009)		-
Oxford Research Grant Fund 2021	22,103			(667)		21,436
Total Designated Funds	29,197	-	(18)	(6,676)	-	22,503
Total Unrestricted Funds	275,044	(10,008)	-	-	39,817	304,853
Total Funds	276,277	(10,008)	-	-	40,159	306,428

The income from the Maynard Jenour and Kennedy Endowment Funds is unrestricted and is applied to fund grants to support clinical research. These funds represent permanent endowments held by the Trust.

The designated funds represent unrestricted amounts which the Trustees have allocated for specific purposes. The Trustees can reallocate these funds as required.

The Oxford Research Grant Fund represents the intention of the Trust regarding funding of the Institute. The designated fund represents funding of £3m pa (adjusted for inflation) over the period incurred until 31 July 2021. £3.051m (2020: £3.620m) was released from the Oxford Research Grant Fund to General Funds constituting funding of this obligation from 1st October 2020 to the termination of the contract on the 31 July 2021. A residual of £2.958m was released from the fund to general unrestricted funds at the end of the contract on 31 July 2021. No grant creditor has been shown as the Trust has the right to refuse payment if no suitable projects are put forward.

A further agreement with the University of Oxford was signed in October 2018 which indicated the intention of the Trust to contribute funds to the Institute for a further five years from 1 August 2021 to 31 July 2026.

The designated fund represents funding of £4m pa (adjusted for inflation) from 1 August 2021 to 31 July 2026 and has been treated as for the original fund. £0.667m was released from the Oxford Research Grant Fund 2021 to General Funds constituting funding of this obligation from the commencement date of the contract on 1 August 2021 to 30 September 2021.

In previous years the Trustees set aside a significant amount of royalty income in a Legal Expense Fund (10% of gross royalty income), which is utilised to ensure compliance with license agreements and in the event of possible litigation to defend the Trust's patent rights world-wide.

A decision was taken in 2011 that the Legal Expense Fund had reached an adequate level so payments into the fund are currently suspended.

Any balance remaining on the Legal Expense Fund at the end of the relevant patent period will be distributed pro rata to the beneficiaries' percentage of royalty income.

During 2017 the decision was taken to release £5m of the Legal Expense Fund and a further £5m was released in 2019. Of this £2.35m was paid to the inventors and Versus Arthritis. The remaining £2.65m due to the Trust was released to unrestricted reserves.

15. Funds – continued

2020 Comparatives

	30 September 2019 £'000	Income/ (Expenditure) £'000	Expenditure from Designated Funds £'000	Transfers £'000	Investment Profits £'000	30 September 2020 £'000
Endowment Funds						
Maynard Jenour Fund	109				(27)	82
Kennedy Endowment Fund	1,519				(368)	1,151
Total Endowment Funds	1,628	-	-	-	(395)	1,233
Unrestricted Funds						
General Fund	257,255	(1,158)	5	3,620	(13,875)	245,847
Designated Funds						
Legal Expense Fund	1,090		(5)			1,085
Oxford Research Grant Fund	9,629			(3,620)		6,009
Oxford Research Grant Fund 2021	22,103					22,103
Total Designated Funds	32,822	-	(5)	(3,620)	-	29,197
Total Unrestricted Funds	290,077	(1,158)	-	-	(13,875)	275,044
Total Funds	291,705	(1,158)	-	-	(14,270)	276,277

16. Financial Commitments and Contingent Liabilities

The Trustees are committed to funding, at least in part, the Kennedy Institute of Rheumatology at Oxford.

Resources are being set aside in designated funds. Refer to note 15 for details of designated funds.

As explained in the Designated Funds note any balance outstanding on the Legal Expense Fund at the end of the relevant patent period will be distributed pro rata to the beneficiaries' percentage of royalty income. This potential liability (should it crystallise) will not exceed £0.502m as at 30 September 2021 (2020: £0.511m).

The Trust's local currency is pounds sterling but it holds some US Dollar investments and a US Dollar bank account.

The Trust has a lease on its current offices which can be terminated at three months' notice.

These non-cancellable lease commitments and their period of expiry are:

		30 September 2021 £'000	30 September 2020 £'000
Expire	<1 year	17	55
	2-5 years	-	-
	>5 years	-	-
		<u>17</u>	<u>55</u>

17. Financial derivatives

Following the appointment of JP Morgan, forward exchange contracts are used to solely manage exposure to currency exchange risk in the investment portfolio.

Forward contracts with contracted values of US\$74.4m and EUR14.4m, were entered into during the year (2020: nil) and matured in October 2021. As at 30 September 2021 marking the open contracts to fair value resulted in a loss of £1.886m (2020: nil).

No forward contracts matured during the year.

18. Subsequent Events

Subsequent to the year end, the Russian invasion of Ukraine has led to a heightening of market volatility and pressure on some asset markets. The Trustees are in frequent contact with its investment manager, JP Morgan but do not consider these events to have a material impact on the solvency, resilience, or liquidity of the Trust.